

COMPETITIVE SOURCING

(a) Describe how you identify activities for potential competitive sourcing.

The Defense Supply Center Philadelphia (DSCP) identifies activities for potential competitive sourcing through a combined effort of our four commodities and our staff offices. DSCP's Comptroller Office is the focal point for coordinating this effort. This office coordinates the activities for potential competitive sourcing that are subsequently submitted to our headquarters.

In support of competitive sourcing, DSCP complies with the Javits-Wagner-O'Day Act (JWOD) and has awarded over \$243 million to the affiliates associated with the National Industries for the Blind (NIB) and the National Industries for the Severely Handicapped (NISH) in FY 01, as illustrated in Chart A-1. Through these efforts, DSCP customers have been provided any variety of military shirts, trousers, bib overalls, hats, and even pancake mix.

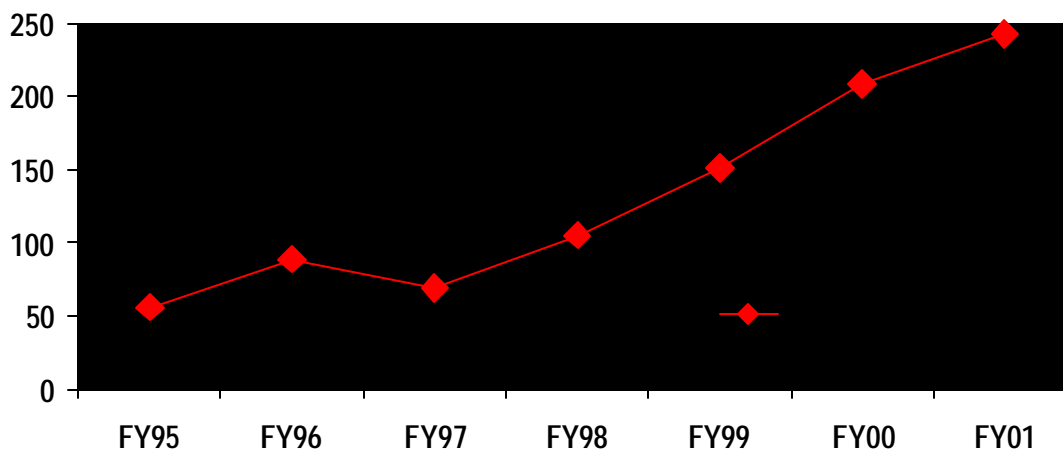


Chart A-1 JWOD Program.

Note: DSCP awards over \$243 million in support of competitive sourcing.

DSCP has championed competitive sourcing through contracting with manufacturers who could rapidly increase their production capacity in the event of an emergency or Military deployment. We have entered into long-term contracting arrangements with "Prime Vendors," in which DSCP designates a primary contractor to manage a particular category of products. That vendor, in turn, has agreements with various suppliers to provide products to DSCP customers. Our customers communicate directly with the prime vendor when ordering needed products. These prime vendor contractor arrangements have expanded DSCP's ability to be more efficient in filling customer requirements. Another innovative method used in support of competitive sourcing is the "Bill and Hold" process. Manufacturers of our clothing items "ship" the goods to inventory in their own storage facility after Government inspection and acceptance. The goods are held at their storage facility until the Government's customer submits a requisition to the contractor for shipment to its ultimate destination. This saves the Government storage and distribution costs, lessening the cost to maintain any remaining depots. DSCP can serve as a role model on these initiatives for other organizations to obtain similar success.

(b) Describe how you have promoted continuous improvement within the organization to ensure you have the most efficient organization.

DSCP has promoted continuous improvement within the organization through meetings between our Commander and Board of Directors. At these meetings they review organizational performance and capabilities. Organizational health, competitive performance, and progress relative to performance goals are assessed to meet our changing organizational needs. We also use a Balanced Scorecard made up of financial and non-financial measures to provide a comprehensive view of the processes used to accomplish our objectives. The results of the metrics provide baseline performance indicators that are regularly analyzed and used as a tool to set priorities for improvements and opportunities for innovation.

We have promoted improvement within our organization by comparing our performance to our established goals. We collect and incorporate business practices through learning from benchmarking, market research, customer surveys, and strategic studies with various industries. Results support improving customer value, service, and the needs of our customers. Our marketing personnel are continually conducting market research that assists us in adjusting our business practices. The Business Analysis Division tracks our performance efficiency through monthly reports submitted by the commodities. They include metrics of our sales, inventories, supply availability, discrepancies, Electronic Data Interchange (EDI) activity, employee development, etc. This information is used to re-evaluate our processes and revamp strategies to focus on the most efficient methods to satisfy and support our customers' needs and services in the most efficient manner. Improvements to our key business processes are initiated as a result of customer feedback, customer and vendor surveys, opinion surveys, customer complaints, employee suggestions, and performance review meetings between customers, vendors, and DSCP. Collected information is reviewed by management and evaluated for potential process improvement revisions.

To meet the challenge of continuous improvement while maintaining optimum flexibility, we have relied on our ability to develop and deploy innovative technology. Our use of this technology has enabled us to maintain our workload effectiveness while reducing our personnel strength by over 40 percent in the last 10 years.

One of our efforts to improve our customer support network was to install customer call centers in each of our four commodities and in our two help desks. At that time, we purchased automatic call distributor (ACD) technology that enabled us to measure our call center performance as well as route calls appropriately. We established a "front door" toll-free number (1-800-413-6789) for commodity customers to reach us. This number is also linked to the Defense Logistics Agency (DLA) customer toll-free number (1-877-DLA-CALL). Since 1998, we have measured call volume, speed to answer calls, abandoned call rate, service target level, and first call resolution. We extract more detailed call information on an as-needed basis. Our customer call center initiative has greatly enhanced our customer satisfaction and can be easily replicated by other Federal Government organizations.

We also offer customers access to an automated interactive voice recognition (IVR) system, which lets them perform the following: check status of requisitions; check stock availability; submit new requisitions; modify existing requisitions; and link to a customer service representative. This 24-hour service is called “DESEX” – Defense Emergency Supply Expert System.

Major improvements were made to DESSEX service when DSCP partnered with the Defense Distribution Center (DDC) in New Cumberland, PA. A formal agreement was signed in September 2000, allowing a migration to DDC New Cumberland that culminated in February 2001. This arrangement has saved DSCP over \$1.3 million annually and has created a better working relationship between DSCP and DDC personnel.

To ensure a seamless transition, we kept our toll-free number in place to limit disruption of customer service. Additionally, both DDC and DSCP personnel trained at both locations, and we continue to look for ways to improve customer service. Since taking over the function, DDC now tracks all customer contacts including phone calls, e-mails, Internet requests, faxes, and material release orders (MRO). The service target level goal, which is to handle 80 percent of calls within 45 seconds, has gone from a monthly average of 57.6 percent to 83.6 percent since the transfer. Abandoned calls have been drastically reduced from 19.7 percent to 5.9 percent monthly. First call resolution continues to be well over the goal of 80 percent with a monthly average of 94.9 percent since the transfer. DDC has subsequently created a skilled and interactive communications center for DSCP customers, has developed new standard operating procedures that relate to each of the four DSCP commodity functions, and has instituted a robust agent-training program.

DSCP is active in developing innovative distribution processes. For depot-stocked materiel, this includes cross-docking and third party delivery services. Cross docking involves transporting truckload shipments from numerous apparel vendors to the cross-docking facility for rapid breakdown and delivery to our customers (eliminating storage requirements). Rather than just benchmark against the commercial world, we decided to go with commercial world business practices. Initiatives such as Prime Vendor, Quick Response, Virtual Prime Vendor, Bill and Hold, and Vendor Managed Inventory are all the results of benchmarking ourselves against commercial business practices.

Between 1995 and 1996, the DLA Operations Research Office benchmarked DSCP Subsistence’s newly developed Prime Vendor Program against commercial food distribution systems. They determined that DSCP was able to provide competitively priced, better quality fresh fruits and vegetables to our Military customers compared with commercial vendors. We were also able to provide faster and overall better service to the Military Services. As a result, the Prime Vendor Program was implemented throughout DSCP in late 1997. To assure the success of the Prime Vendor Program, multifunctional teams have several checks and balances, which are a routine practice. For example, a post-award conference is held with the customer, vendor, and DSCP to determine responsibilities prior to any supply deliveries. Quarterly reviews are also held between the customer, the prime vendor, and DSCP. Prior to the quarterly review

conference, contractor performance surveys are sent to the customers and the data is then presented in the quarterly review. The prime vendor submits monthly data reflecting the percentage of fill rate, number of lines ordered, and the number of lines received. Technical and quality team members receive and evaluate this data to identify and resolve problems.

Benchmarking with various industries on customer value, service, and the expressed needs of our customers has proven to be an effective tool in our process improvements. It was used with EDI to develop state of the art systems in electronic business communications. In recent years, DSCP simplified its EDI system by eliminating its antiquated mainframe and transferring its function to a New Technology (NT) server (which is a mid-tier system). This state of the art change has allowed direct access to a wider range of data and information from our desktop personal computers. Its impact has eliminated the cost of maintaining a mainframe system, increased internal customer support, allowed a higher level of responsiveness to our external customers' needs, and afforded us a business process that mirrors trading partners in private industry. The selection of Electronic Data Interchange/Electronic Commerce (EDI/EC) for benchmarking was a direct outcome of our focus on buying response. Within the electronic commerce processes of order management, purchasing, receiving, transportation, and financial transactions - we chose to initially reengineer our contracting and financial processes.

We benchmarked the Electronic Bid Board at the Defense Electronics Supply Center in Dayton, Ohio. We looked at the Bid Board since it impacted our solicitation process, one of our high cost activities, and one that impacts our lead time. The Bid Board involves placing solicitations on a server (computer) which our contractors call in electronically to receive these solicitations. The old process was paper, labor, and time-intensive. All have been reduced dramatically through automation.

Initial use of the Bid Board was in the steel customer business unit where dramatic improvements in our measures were achieved. Administrative lead time has gone from 65 days to 12 days. Back orders have been reduced considerably, and the average cost to make an award has decreased from \$140 to \$70. These goals were not thought possible using the manual system. We have now implemented the Bid Board in all of our customer business units, and we anticipate continued improvements in all areas.

We also promote improvement of our organization through Integrated Process Teams (IPT). These teams, consisting of DSCP employees at any level (and sometimes industry), study our processes and make suggestions for improvements. Management monitors team progress and provides necessary resources to reach team goals. One IPT, attended by Subsistence, Industry, the United States Department of Agriculture, the Military Services, and other agencies, discussed nutritional analysis to find an efficient and cost effective way to standardize, test, and verify the nutritional content of operational rations. This effort helped to improve the health and welfare of our troops.

The Commander's Acquisition Assistance Program (CAAP) is yet another tool in place to assist with improvements within our organization. Administered through the Office of Procurement Management's Contract Integrity Branch, Procurement Management Reviews are performed on center-wide acquisition offices to promote efficiency, economy, and the consistent application of Federal, Department of Defense (DoD), DLA, and DSCP acquisition policy. During a review, an overall assessment is made of the internal customers' acquisition practices. Once needed improvements are determined, the CAAP team provides written recommendations for correction of deficiencies, and improvement of contracting operations. Reviews are planned in two to four year cycles for on-site, continental U.S. and overseas DSCP offices.

DSCP has been able to improve our organization through information received as a result of research of the industry and face-to-face meetings with business partners and customers to discuss their changing needs and changing market direction. DSCP also uses feedback from industry and customer surveys to assess the need for business process improvements. As customer needs and directions change, DSCP is able to keep pace through changes in procurement policy and procedures, new contracting initiatives and improved electronic commerce services and communication.

Finally, DSCP has implemented the use of various surveys to assist in the evaluation and improvement of our organization, and the service we provide our customers. We use customer surveys to help uncover and correct problems as well as prevent problems from recurring. DSCP conducts a Climate Survey of our employees to help determine employee satisfaction with our organization. There is also Management Thru Leadership (MANTLE) which is a tool used to evaluate the skills of our supervisors and team leaders in various competencies.

(c) Describe your timely compliance with the FAIR Act and efforts made to accurately list all commercial activities performed by your employees.

As required by the FAIR Act, DSCP's Comptroller Office prepares a DoD Inventory of Commercial and Inherently Governmental Activities report which includes all DSCP positions and functions. This report is submitted to Headquarters, DLA, prior to June 30th, of each year. To accomplish this, representatives in each of DSCP's commodities review each commodity position and assign a function or activity code which describes the work performed. A criteria code is then assigned which describes the criticality of the work. This criteria code identifies the position as either core (inherently governmental) or non-core (commercial activity). The non-core coded positions will eventually be studied.

Currently, Headquarters, DLA, has limited DSCP to the submission of annual inventory reporting only. This is due to the impact of the past Base Realignment and Closure (BRAC) and recent Business Systems Modernization (BSM) actions. However, with anticipation of the completion of these actions, DLA has already scheduled DSCP to perform a complete review of all commercial activities identified in our inventories. The reviews will include a statement of work, quality assurance plan, in-house cost estimate, and a cost comparison.

(d) Describe how your senior leaders promote competition.

One way our senior leaders promote competition is through partnering efforts with our competitors. DSCP Medical and the Department of Veterans Affairs (VA) have leveraged customer requirements into lower costs to their customers. By sharing intelligence, Military Service requirements can be better served with improved business processes. As a result of joint Department of Veterans Affairs/Department of Defense contracting actions, customers have realized \$78.8 million dollars in savings during FY 01. Our leaders also attend supplier and customer conferences to discover new opportunities for our organization. By developing sophisticated partnerships with our customers and suppliers, we are able to leverage our position for new opportunities in the global markets of our commodities.

Senior leaders also support and promote new programs that bring competitors together as exemplified through the Department of Defense Electronic MALL (EMALL), one of our Web-based ordering systems. The DoD EMALL environment exists to bring Government customers who need commercial and military products and DoD approved vendors together in an efficient marketplace. The DoD EMALL allows customers to browse through Internet accessible electronic catalogs and compare products, prices, delivery terms, and payment options; and then purchase the product that best suits their needs directly on-line. Customers can pay for the selected products using their Government Purchase Card or the Interfund Billing Process. The system is designed to allow customers to efficiently locate and order items from electronic catalogs through a "point, click, and ship" system. This system eliminates the traditional labor-intensive process of identifying sources of supply through vendor brochures, paper catalogs, phone book searches, or a series of Internet catalog searches. This strategy also enables DoD to leverage the Department's buying power through volume discounts and streamline the procurement process for buying commercial items. Chart D-1 illustrates e-commerce sales of each of the systems.

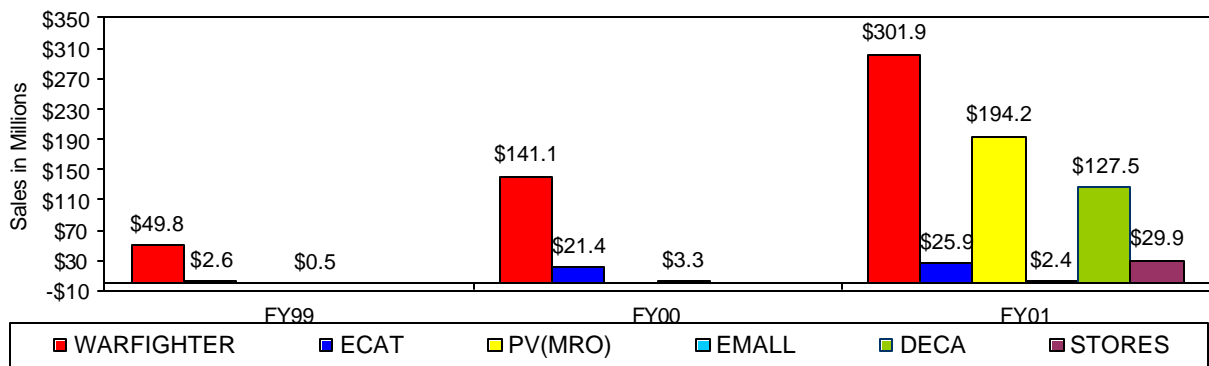


Chart D-1 DSCP E-Commerce Sales

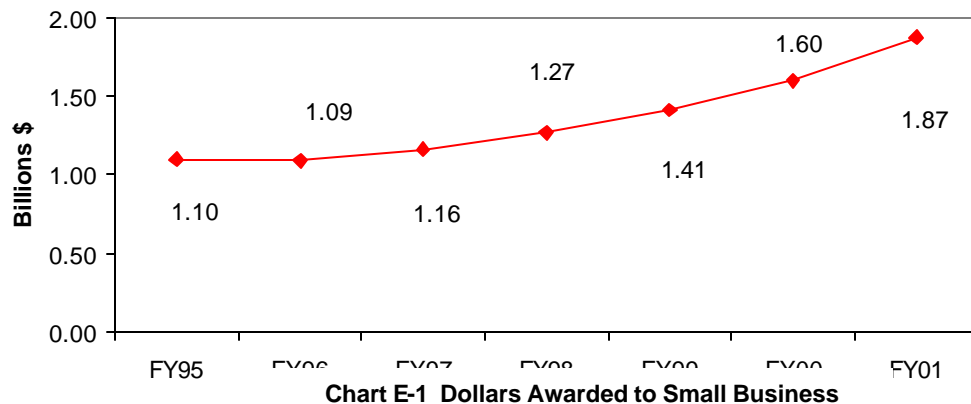
Each commodity directorate maintains interactive e-commerce procurement systems. These include Medical's Electronic Catalog (ECAT), the Subsistence Total Order and Receipt Electronic System (STORES), the Subsistence Defense Commissary Agency (DeCA) catalog, C&T's Warfighter, and the G&I Maintenance, Repair and Operations (MRO) program. As a result of the competition promoted through these systems, DSCP sales have increased.

DSCP also hosts an annual Subsistence Customer Conference and Food Show. The purpose of this Conference and show is to educate and inform customers and vendors through general sessions and workshops. Vendors are provided with display booths for exhibition of their products.

Other methods DSCP uses to promote competition are advertising through the Commerce Business Daily, holding pre-solicitation conferences, and contacting trade organizations for information on potential sources.

(e) What are your results?

DSCP supports its efforts for competitive sourcing through our Socio-Economic programs. Through the years DSCP has continued to strengthen its relationship with the small business community and special emphasis program partners. Through partnership with small, small disadvantaged, and women-owned small businesses, DSCP has been able to build long-term relationships that are vital to the small business industrial base. Small business contract dollars have steadily increased since FY 95. DSCP has annually exceeded \$1 billion in awards to small businesses for 12 consecutive years. Chart E-1 depicts our contract dollars awarded to small business.



Employee satisfaction is vital to process improvements within the DSCP organization. In October 2001, we initiated a climate survey to assess various factors that impact employee satisfaction. Overall survey results by broad category areas are shown below, including results segmented by employee group—overall, supervisors, and non-supervisors. Chart E-2 illustrates the factors measured in the climate survey.

Generally, supervisors are more satisfied than non-supervisory employees, which is a typical response.

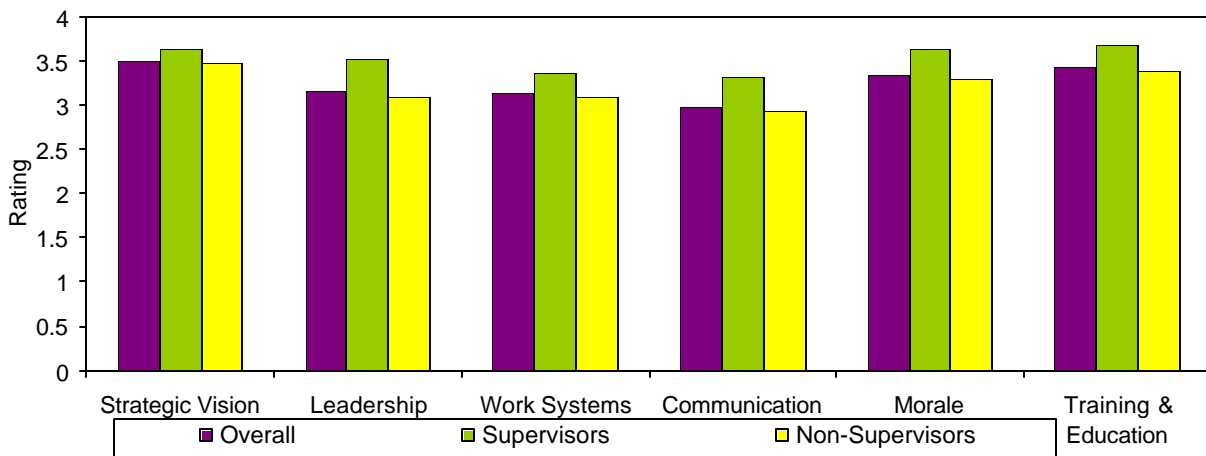


Chart E-2 Climate Survey Results

Also, as part of our process improvement efforts, our employees have an opportunity to give their managers feedback regarding their effectiveness in critical areas. Results from our leadership feedback tool, MANTLE, are shown below. The scale used for MANTLE is 1 (unable to meet this standard consistently) to 7 (consistently meets this standard). Results have continued to improve each time MANTLE has been administered. Chart E-3 illustrates MANTLE results.

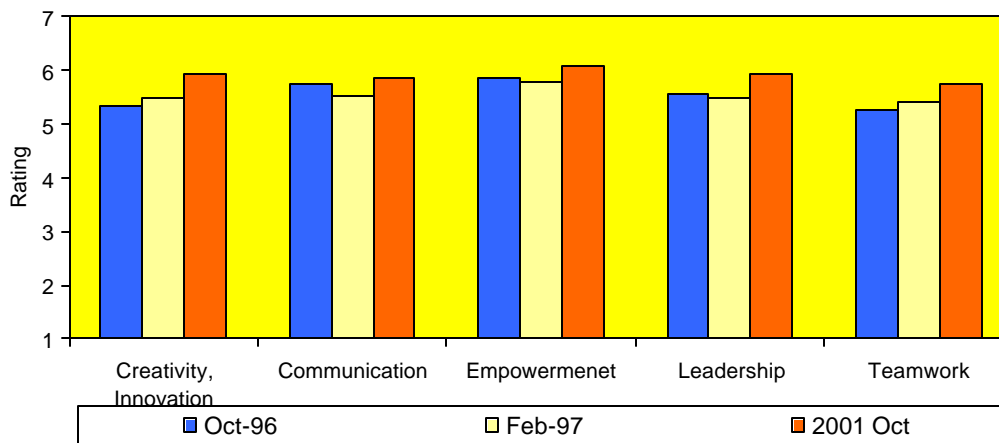


Chart E-3 MANTLE Results

Benchmarking with industry has resulted in improved business applications and innovations at DSCP. We benchmarked business areas that resulted in changes to our business practices, which encouraged competition and improved service to our customers.

Chart E-4 illustrates areas that experienced improvement through benchmarking.

Area of Comparison	Benchmarked Organization	Findings Used
Business Development	DuPont, MCI, Exxon, MONY, Union Pacific	Knowledge Management Techniques, Electronic Mall, Intranet
Supply Chain Management	Motorola, Honda, Bose, John Deere, Sun Micro-systems, Defense Personnel Support Center	Supply Chain Management Concept, Prime Vendor
Customer Value	USAA, Lexus, Sony	Customer Management System, Automated Customer Profiles, Customer Survey Methods
Work Force Development	Storage Tek, Disney, Picatinny Arsenal	Rewards and Recognition, People Management, Reverse Appraisals, 360 Degree Feedback

Chart E-4 Benchmarking with Industry

The DSCP Call Center has improved in responding to its customers' concerns. We strive to resolve customer concerns at the time they call into the Call Center. DSCP's first call resolution was 95 percent of all calls, thus exceeding our goals of 80 percent. Chart E-5 illustrates the Call Center's average response time.

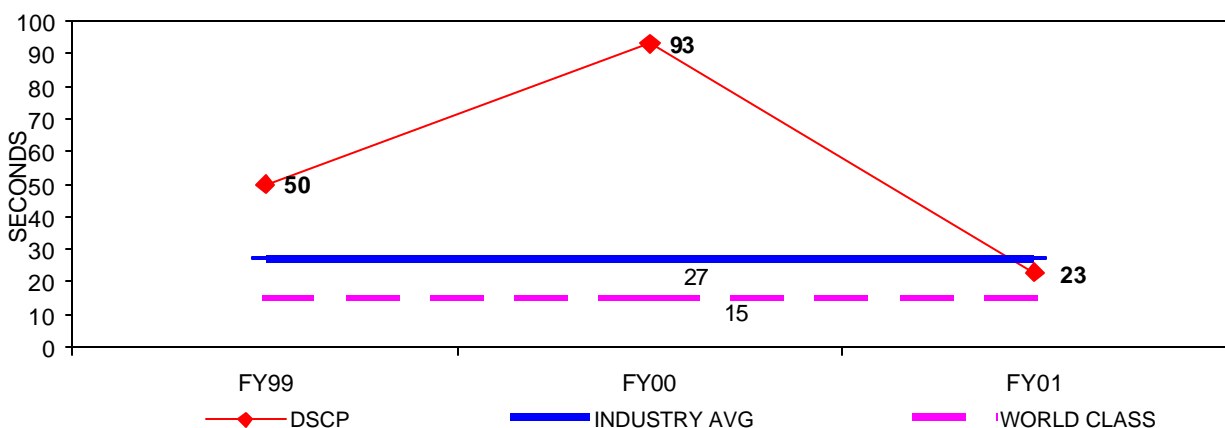


Chart E-5 Call Center, Average Speed (seconds) to Answer

Abandoned calls occur when a customer decides to hang up before a Call Center agent answers the call. In FY 01, DSCP's rate of 6.1 percent was better than the industry average of 7.4 percent. We also exceeded the industry average answer time by 4 seconds. Chart E-6 reflects the Call Center's average abandoned calls for the last 3 years.

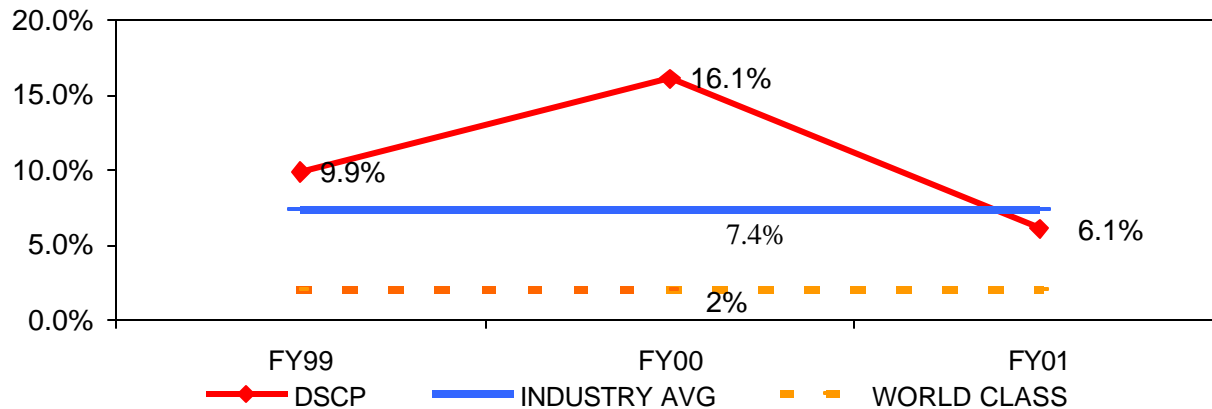


Chart E-6 Call Center, Abandoned Calls

As a result of continued process improvement, DSCP has been able to provide our customers with goods and services at better prices than those of some of our competitors. Chart E-7 highlights some of the price comparisons between our products and services and those of our competitors.

DSCP Area	Price Difference	Competitor
Medical: Pharmaceutical Market Basket	11% less	VA
Clothing & Textiles: Cushion Boot Sock	25% less	AAFES
USMC Poromeric Dress Shoes	23% less	AAFES
Subsistence: National Allowance Program Agreements (NAPA)	20% less	Retail Prices

Chart E-7 Products and Services, Price Difference, FY 01

In conclusion, DSCP has been actively supporting efforts to seek out competition while developing innovative contracting arrangements with vendors and organizations to ensure that our customers receive the goods and services they need. As Government continues to reform, we remain committed to ensuring the right item, at the right time, at the right place, for the right price. Our success in providing outstanding customer support is exemplified in the results discussed above. DSCP's competitive sourcing initiatives can be used as a role model and can be easily transferred to other Federal Government organizations.